



Jurnal Terapan Manajemen dan Bisnis
Volume 4 Number 2 September 2018. Page 184-191
e-ISSN: 2477-5282 p-ISSN: 2599-3127



Jurnal Terapan Manajemen dan Bisnis is licensed under
 A Creative Commons Attribution-NonCommercial 4.0 International License.

ANALYSIS OF BUSINESS COMBINATION IMPLEMENTATION AT PT CHINA CONSTRUCTION BANK INDONESIA

Andita Wulandari K¹⁾, Zanuvar Arifin²⁾, Amrie Firmansyah³⁾

1) Polytechnic of State Finance STAN, Jakarta, Indonesia
 E-mail: w.k.andita@gmail.com

2) Polytechnic of State Finance STAN, Jakarta, Indonesia
 E-mail: zanuvar.arifin@gmail.com

3) Polytechnic of State Finance STAN, Jakarta, Indonesia
 E-mail: amrie.firmansyah@gmail.com

Abstract

This study aims to review the implementation of mergers conducted by the company. In Indonesia, merger activities are regulated in Indonesia Statement of Financial Accounting Standards Number 22 (hereinafter referred to as PSAK 22) concerning Business Combinations. Increased merger activities in the business world are driven by changes in economic conditions. The rise of merger and acquisition activities was caused by various things, such as technological advances, increasing financial conditions, excess capacity/financial failure, international market consolidation and deregulation.

The research method used in this research is qualitative descriptive with case studies of business combination events that occurred between PT Bank Windu Kentjana Internasional, Tbk as the party which received the merger and PT Bank Antardaerah as the company which joined. Regarding ownership, the name of PT Bank Windu Kentjana Internasional, Tbk changed to PT China Construction Bank Indonesia, Tbk (PT CCB Indonesia, Tbk).

The results of this study indicate that in general, the consolidated report of PT CCB Indonesia, Tbk for the period ended December 31, 2016, in general, has been prepared by PSAK 22, 2015.

Keywords: Business Combination; Consolidated Financial Report; Merger

Introduction

The number of companies that conduct mergers and acquisitions is caused the company has certain objectives. The basic objective of the company in conducting mergers and acquisitions is to prove that it has the good growth and development (expansion) of assets from the company and sales so that it could improve the company's synergy (Utari, Purwanti, and Prawironegorp, 2014). Synergy refers to optimizing the increase in values and

benefits that are considered to be good, for the takeover and foreclosed parties, and related to the optimal operational activities that lead to increased output and outcomes from the implementation of the concept of economic scale (Kamaludin, Susena, and Usma, 2015).

Accounting has an important role in a business combination because it affects the presentation of the company's financial statements. The financial statements should inform correctly, completely, clearly and accurately describe the economic events that affect the results of the operations of the business unit. Disclosures in financial statements should be provided to avoid providing misleading information (Maimunah and Darmawan, 2016). In Indonesia, business combinations are regulated in PSAK 22 (IAI, 2015). According to PSAK 22 (IAI, 2015), a business combination is a transaction or other event in which the acquirer obtains control over one or more businesses. Transactions which are sometimes referred to as "true mergers" or "merger equals" are also business combinations. Baker, King, and Thomas (2010) defined mergers as business combinations where only one company that survives from various companies that join and other companies are dissolved. The assets and obligations of the foreclosed company are transferred to the company that takes over, and the company that is taken over is dissolved or liquidated.

International Financial Reporting Standards (IFRS), Number 3 on Business Combinations, states that an entity should take into account every business combination by applying the acquisition method (IASB, 2008). The implication of this provision is that all business combinations, which are within the scope of IFRS 3, should be considered as acquisition (purchase) transactions. The acquirer sacrifices the resources to buy a business (acquiree) whose purpose is to gain control over the business. The seller party is generally the old owner who previously controlled the business. Acquisitions are considered to occur in arm's length transactions, each of the parties involved is willing and has sufficient information regarding the transaction they are doing. This assumption justifies the use of fair value, both to measure the sacrifices that are given and the business acquired.

According to PSAK 22 (IAI, 2015) concerning Business Combinations, the definition of Business combination or Merger Business Merger is the union of two or more separate companies into one economic entity because one company is uniting with another company or obtaining control over assets and other company operations. The business combination is accounting whose substance in Indonesia is discussed in revised PSAK 22 in 2010. Business combination transactions according to PSAK 22 revised in 2010 occur when an entity obtains control over another entity in the form of business (Karyawati, 2012). Beams et al. (2012) stated some reasons underlying the actions of business mergers, namely cost benefits, lower risks, fewer delays in operations, preventing expropriation, acquisition of intangible assets, and other reasons. Furthermore, Beams et al. (2012) also stated that business combinations involve combinations in joint control of two or more previously separate entities. Three legal forms of business combination, namely merger, consolidation, and acquisition. The merger is a combination in which the only one of the combined entities survive, and the other entity is dissolved. Consolidation is a business combination in which the two combined entities are dissolved, and the net assets of the entity are transferred to the newly formed entity. Acquisition occurs if one entity acquires voting rights from another entity and both entities continue to operate as two separate entities but have a special relationship. The acquiring entity treats its ownership in the acquired entity as an investment because no entity is liquidated or dissolved. In the acquisition of shares, the acquiring entity treats its ownership to obtain control.

Research related to mergers has been conducted such as Walangitan (2012) who examined the quality and level of compliance of the company in revealing a test of impairment of goodwill and analyzed whether the chosen accounting choice indicated the existence of earnings management by listed companies in Indonesia Stock Exchange in the year of impairment test adoption (2011). The result suggested that the quality and level of compliance of company disclosures in Indonesia is still very low as evidenced by the fact that many companies do not make disclosures. Hidayati (2013) analyzed differences in accounting treatment before and after IFRS convergence PSAK No. 22 which regulates the accounting treatment of business combinations. Esfandari (2013) conducted a literature study on the adoption of IFRS 3 on goodwill in a business combination. The study concluded that the adoption of IFRS 3 had many impacts on business combinations.

Furthermore, Rahayu and Oksadila (2014) examined the disclosure of perceptions of the quality of PSAK 22 (revised 2010) by using the object of Accounting Department students at the Faculty of Economics, Indonesian Islamic University who had read and had not read it. The study proved that students considered that the quality of PSAK 22 (revised 2010) does not meet the qualitative criteria of accounting standards. By using the PT Indosat object, Sari (2014) concluded that PT Indosat Tbk in converging business combinations of goodwill and other intangible assets was by the rules in the revised PSAK 22 2010. Maimunah and Darmawan (2016) examined the application of the principles of presentation and disclosure of PSAK 22 in the financial statements of PT Telekomunikasi Indonesia (Persero) Tbk for the period 2012-2014. The study concluded that PT Telekomunikasi Indonesia (Persero) Tbk in the presentation of its financial statements as a whole is by the standards that regulate it, but in its business combination activities, PT Telekomunikasi Indonesia (Persero) has not fully complied with the revised 2010 PSAK 22 of acquisition activities that generate goodwill. Bwarleling (2014) examined the relevance of value and reliability of goodwill reported based on PSAK in 2011; the period characterized by the accounting treatment for goodwill that indicates the relevance of the value and reliability of reported goodwill after IFRS adoption (revised PSAK 22 2010). The result suggested that for Indonesian companies the average information presented regarding goodwill is relevant, but it is unreliable value.

This study aims to review merger cases from the accounting point of view related to the recording of financial statements after mergers. It is still rarely discussed by previous research. Therefore, it is essential to be conducted, so that this study could be used as an alternative reference related to merger cases. The object used in this study is the case of the merger of PT Bank Windu Kentjana International Tbk as the "merging company" and PT Bank Antardaerah as the "company which joined" in June 2016. Bank Windu as a merged company, was renamed PT Bank China Construction Bank Indonesia Tbk ("Indonesian CCB"). The name change is related to the entry of a new controlling shareholder namely China Construction Bank Corporation ("CCB") which currently has 60% (sixty percent) of the company's shares (Annual Report of PT CCB Indonesia, Tbk, 2016). Therefore, this research is expected to be able to recognize the accounting policies of PT CCB Indonesia, Tbk related to business combinations, any business combination activities carried out by the company until 31 December 2016, and the application of PSAK Number 22 in the financial statements after the business combination activity.

Research Methods

This research was conducted through a qualitative method with a descriptive, analytical approach to the case study of the PT 2016 CCB Indonesia Financial Statements, Tbk. The 2016 election was based on a business combination event that occurred between PT

CCB Indonesia, Tbk (at that time named PT Bank Windu Kentjana Internasional, Tbk) and PT Bank Antardaerah June 2016. The data used in this paper is obtained from the official website of PT CCB Indonesia, Tbk (idn.ccb.com), and other sources credible. The PT CCB Indonesia, Financial Statements for the year 2016 was reviewed in the business combination section and compared with the applicable standards in PSAK 22 (IAI, 2015) concerning Business Combinations.

Results And Discussion

The business combination of PT CCB Indonesia, Tbk is accounted for using the acquisition method. The cost of an acquisition is measured in the aggregate value of the consideration transferred, measured at the fair value at the date of acquisition and the amount of each Non-Controlling Interest (NCI) on the party acquired. For each business combination, PT CCB Indonesia, Tbk measures the NCI of the acquired entity either at fair value or on the proportion of NCI ownership of the net assets identified from the acquired entity. Acquisition costs incurred are directly charged and included in administrative expenses.

When acquiring a business, PT CCB Indonesia, Tbk classified and determined the assets and liabilities that were taken over based on contractual requirements, economic conditions and other related conditions that existed at the date of acquisition. This included grouping derivatives embedded in the main contract by the acquired party. If a business combination is carried out in stages, PT CCB Indonesia, Tbk re-measures the previously held equity interest in the acquired party at the fair value of the acquisition date and recognizes the gain or loss resulting from profit or loss.

The contingency benefits transferred by PT CCB Indonesia, Tbk is recognized at the fair value of the acquisition date. Changes in the fair value of the contingent consideration after the acquisition date which is classified as assets or liabilities would be recognized as profit or loss or other comprehensive income by PSAK No. 55 (IAI, 2015). If classified as equity, contingency benefits are not remeasured, and subsequent settlement is calculated in equity. At the acquisition date, goodwill was initially measured at cost, which was the difference between the aggregate value of the convertible compensation and the total value of each NCI on the total difference between the acquired assets acquired and the liabilities were taken over. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized as profit/loss.

After initial recognition, goodwill was measured at carrying amount less accumulated impairment losses. For impairment testing, goodwill obtained from a business combination, from the date of acquisition is allocated to each Cash Generating Unit (CGU) of the Group that is expected to benefit from the combination synergy, regardless of whether the asset or other liability derives from the party. If the goodwill has been allocated to CGU and certain operations on the CGU have been terminated, the goodwill associated with the terminated operation would be included in the carrying amount of the operation when determining the gain or loss from disposal. The goodwill released is measured based on the relative value of the operation is terminated and the portion of the CGU being held.

On June 24, 2016, PT Bank Windu Kentjana Internasional, Tbk (now PT CCB Indonesia, Tbk) has signed a Sale and Purchase Agreement (SPA) to acquire Bank Antardaerah (Your Bank). This acquisition was completed on June 24, 2016. Bank Antardaerah was acquired 100% of the total shares issued by your bank with the acquisition price of Rp517,913,000,000.00. Of this amount, there was goodwill amounting to Rp190,075,000,000.00. The purpose of the acquisition was to increase the potential of Bank

Windu's business scale to be greater and increase its operational reach, especially in areas that were previously the main power base owned by Bank Antardaerah, both for lending and as a source of third-party funds.

After the acquisition, Bank Windu gained control of Bank Antardaerah. Therefore, from the date of completion of the acquisition, the Bank Antardaerah's financial statements were consolidated into Bank Windu's financial statements. After the merger, the number of Bank Windu's offices as recipients of the merger became 112 offices spread across Indonesia. After the business combination, the composition of the company's capital ownership did not change.. Bank Windu as a merged company was renamed PT China Construction Bank Indonesia Tbk (CCB Indonesia). The background of the Company's name change is related to the entry of a new controlling shareholder namely China Construction Bank Corporation ("CCB") which currently has 60% (sixty percent) of the company's shares. Goodwill arising from your Bank's acquisition is classified separately and included in intangible assets. By PSAK 22 (IAI, 2015), goodwill is not amortized and tested for impairment annually. The carrying amount of the Bank's goodwill as of December 31, 2016, amounted to Rp190,075,000.00

An impairment test was carried out if there is an indication of impairment. In the case of goodwill, assets are tested for impairment annually. If there was an indication of impairment, management should use consideration in estimating recoverable values and determining the amount of impairment. The impairment test of goodwill is conducted annually (on December 31) and when there is an indication that the carrying value has decreased. The recoverable value is determined based on the calculation of use value using the five-year discounted cash flow method. The bank determines the CGU in line with the operating segment. The recoverable value is categorized as level 3 in the fair value hierarchy. The key assumption used in calculating use value as at December 31, 2017, is the discount rate - Banks have chosen to use the weighted average cost of capital (WACC) as a discount rate for discounted cash flows. The WACC determined based on external sources is 8.5%. There is no impairment loss identified goodwill during the year ended December 31, 2017.

Based on paragraph 8 of PSAK 22 (IAI, 2015), the acquirer identifies the acquisition date, that is the date the acquirer obtains control of the acquired party. In the financial statements of PT CCB Indonesia, it is stated that the acquisition of your Bank has occurred on June 24, 2016, namely the date of the signing of the Sale and Purchase Agreement (SPA). By business combination accounting standards, controls are generally obtained at the date of acquisition legally.

Paragraph 10 of PSAK 22 (IAI, 2015) states that at the date of acquisition, the acquirer acknowledges, separately from goodwill, identified assets acquired, liabilities taken over, and non-controlling interests of the acquired party. In the accounting policy of PT CCB Indonesia, Tbk regarding business combinations, it is stated that when acquiring a business, the Business Group classifies and determines the financial assets acquired and foreclosed financial liabilities based on contractual requirements, economic conditions and other related conditions that exist on the acquisition. This includes grouping derivatives embedded in the main contract by the acquired party. Also included in the financial statements are benefits transferred from your bank. Matters recognized are part of the exchange between the acquirer and the acquired party in a business combination transaction, not the result of a separate transaction. In the 2016 financial statements of PT CCB Indonesia, Tbk, the acquisition price, liability and fair value of your PT Bank assets were disclosed at the time of the acquisition, along with the value of goodwill arising from the acquisition.

Paragraph 5 PSAK 22 (IAI, 2015) states that the acquirer classifies or determines the identified assets acquired and the liabilities taken over as needed to apply the other SAK later on the date of acquisition. The acquirer makes the classification or determination based on contractual requirements, economic conditions, operational or accounting policies, and other related conditions that exist at the date of acquisition. In accordance with the financial statements of PT CCB Indonesia, Tbk, in the company's accounting policy regarding business combinations it is stated that when conducting an acquisition of a business, the Group classifies and determines the financial assets acquired and foreclosed financial liabilities based on contractual requirements, economic conditions and related conditions others that exist at the date of acquisition. This includes grouping derivatives embedded in the main contract by the acquired party. Also included in the financial statements are benefits transferred from your bank. Matters recognized are part of the exchange between the acquirer and the acquired party in a business combination transaction, not the result of a separate transaction. PT CCB Indonesia, Tbk has disclosed this information in the 2016 financial statements. Identified assets acquired and liabilities assumed have been assessed based on fair value at the acquisition date, and have been classified based on the operational and accounting policies of PT CCB Indonesia, Tbk. Based on the fair value of these assets and liabilities, PT CCB Indonesia, Tbk determines the amount of excess arising from the difference in net assets and acquisition costs. The excess value is Rp.246,158,000,000.00, which is allocated to the Intangible Core Deposit of Rp.55,428,000,000.00 and Software Technology and Other Supporting Technology of Rp.665,000,000.00.

By the provisions on paragraph 18 of PSAK 22 (IAI, 2015), the acquirer measures the acquired identifiable assets and liabilities taken over at fair value at the date of acquisition. In its implementation, based on the financial statements of PT CCB Indonesia, Tbk in the accounting policy it is stated that business combinations are accounted for using the acquisition method. The cost of an acquisition is measured in the aggregate value of the consideration transferred, measured at the fair value of the acquisition date and the amount of each KNP on the party acquired. Measurement of non-controlling interests at fair value or the proportion of non-controlling ownership of identified net assets of the acquired party. Measurement of the fair value of certain identified assets and non-controlling interests. The provisions in PSAK 22 (IAI, 2015) paragraph 24 stipulate that the acquirer recognizes and measures deferred tax assets or liabilities arising from assets obtained and liabilities taken over in business combinations by PSAK 46 (IAI, 2016). PT CCB Indonesia, Tbk has implemented the provisions in PSAK 22 (IAI, 2014) paragraph 24, in calculating your Bank's acquisition price, there is an estimate of deferred tax liabilities, whereas in accounting policy it is stated that the company complies with PSAK 46 (IAI, 2016) regarding its recognition. The acquirer acknowledges that changes in deferred tax assets are an adjustment to profit or not if required by PSAK 46 (IAI, 2016).

Paragraph 26 of PSAK 22 (IAI, 2015) regulates that the acquirer recognizes and measures liabilities (or assets, if any) related to the employee benefits agreement of the party acquired by PSAK 24 (2016). PT CCB Indonesia, Tbk has implemented the provisions of PSAK 22 (IAI, 2015) paragraph 26. In the financial statements of PT CCB Indonesia, Tbk, it is explained that your bank has defined benefits post-employment benefits consisting of a defined benefit pension plan and post-employment benefits by the Manpower Act. No. 13/2003 (Law 13/2003). The acquirer has recognized and measured liabilities (or assets, if any) related to the employee benefits agreement from the party acquired by PSAK 24 (IAI, 2016). Liabilities for employee post-employment benefits are defined based on actuarial calculations.

Paragraph 32 of PSAK 22 (IAI, 2015) stipulates that the acquirer recognizes goodwill on the acquisition date which is measured as the difference between (a) above (b). Determine (a) is the aggregate value of (i) transferred benefits measured in accordance with the provisions in PSAK 22 (IAI, 2015), which generally requires the fair value of the acquisition date, (ii) the amount of each non-controlling interest in the acquired party measured in accordance with PSAK 22 (IAI, 2015), and (iii) for a business combination carried out in stages, the fair value at the acquisition date of the equity interests previously owned by the acquirer on the acquired party. While it, value (b) is the difference in the amount of identified assets acquired and liabilities taken over at the date of acquisition, measured according to the provisions in PSAK 22 (IAI, 2015). PT CCB Indonesia, Tbk has implemented the provisions in PSAK 22 (2014) paragraph 26. In financial statements PT CCB Indonesia, Bank Windu Kentjana International has acquired 100% share ownership in YOUR Bank. The acquisition price of the shares of Rp.517,913,000,000. The fair value of your Bank's net assets is identified at Rp271,755.00,000.00. There is a settlement of Rp246,158,000,000 allocated to the Intangible Core Deposit of Rp.55,428,000,000.00 and Software Technology and Other Supporting Technology of Rp.665,000,000.00. The remaining amount of Rp190,075,000,000.00 is allocated as goodwill. So, it could be concluded that PT CCB Indonesia, Tbk complies with the provisions of PSAK 22 (2014) by allocating the difference between the acquisition price and the fair value of net assets as goodwill.

From the description above, it is known how PT CCB Indonesia Tbk applies PSAK 22 (IAI, 2015) in its financial statements for the period ended December 31, 2016. Therefore, It could be concluded that in general, the PT CCB Indonesia's Financial Statements, Tbk is by the statement in PSAK 22 (2014).

Conclusions and Suggestions

Conclusions

The method of recording used in the case of a merger between Bank Windu (now PT CCB Indonesia, Tbk) and Bank Antardaerah is the method of purchase. In the use of the method of purchase, the valuation of the acquisition of assets is based on market value or fair value. This will cause goodwill because there is a difference between the acquisition cost of the asset and the acquirer's part of the fair value of assets and liabilities that could be identified at the date of the transaction. In reviewing financial statements, the acquirer has prepared consolidated financial statements by PSAK No. 22, 2015.

Suggestions

This study has limitations related to information about the process of preparing a consolidated report after the merger is conducted because this study did not analyze Bank Windu's financial statements and Bank Antardaerah's financial statements before the merger. It leads the correctness of the process of preparing the consolidated report and its compliance with applicable regulations could not be examined. This research only analyzes one case related to a merger, namely the merger of Bank Windu and your bank, so that further research may take more than one so that analytical tests (benchmarking) could be carried out or could use interviews with relevant parties to obtain more comprehensive research results. Also, this research is expected to provide an overview of the practice of mergers in Indonesia for both academics and practitioners.

References

- Baker, R. E. L., King, V. C., & Thomas, E. (2010). *Akuntansi Keuangan Lanjutan (Perspektif Indonesia)*. Buku 1. Jakarta: Salemba Empat.
- Beams, F.A., Anthony, J.H., Bettinghaus, B., & Smith, K. (2012). *Advanced Accounting*. 12th Edition. New Jersey: Pearson Education.
- Bwarleling, T. H. (2014). Relevansi dan Realibilitas Goodwill (Sesudah Penerapan ED PSAK 22 Revisi 2010). *Jurnal Akuntansi Bisnis*, 7(1).
- Esfandari, A. Y. (2013). Pengadopsian IFRS3 pada Goodwill dalam Kombinasi Bisnis (Studi Literatur). *Jurnal Akuntansi dan Keuangan*, 2(2):104–117.
- Hidayati, N. E. (2013). Perbandingan Perlakuan Akuntansi Sebelum dan Sesudah Konvergensi IFRS atas PSAK No. 22 pada Perusahaan Go Public di Bursa Efek Indonesia. *Jurnal Akuntansi UNESA*, 2(1).
- Ikatan Akuntansi Indonesia (IAI). (2014). *Pernyataaan Standar Akuntansi Keuangan No. 22*. Jakarta: Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia.
- Ikatan Akuntan Indonesia (IAI). (2015). *Pernyataan Standar Akuntansi Keuangan No. 22: Kombinasi Bisnis*. Jakarta: Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia.
- Ikatan Akuntan Indonesia (IAI). (2015). *Pernyataan Standar Akuntansi Keuangan No. 55: Instrumen Keuangan*. Jakarta: Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia.
- Ikatan Akuntan Indonesia (IAI). (2016). *Pernyataan Standar Akuntansi Keuangan No. 24: Imbalan Kerja*. Jakarta: Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia.
- Ikatan Akuntan Indonesia (IAI). (2016). *Pernyataan Standar Akuntansi Keuangan No. 46: Pajak Penghasilan*. Jakarta: Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia.
- International Accounting Standard Board (IASB). (2008). *International Financial Reporting Standards No. 3*.
- Kamaludin, Susena, K. C., & Usman, B. (2015). *Restrukturisasi Merger dan Akuisisi*. Bandung: Bandar Maju.
- Karyawati, G. (2012). *Akuntansi Keuangan Lanjutan*. Jakarta: Erlangga.
- Maimunah, S, & Darmawan, F. (2016). Analisis Penerapan Prinsip Penyajian dan Pengungkapan Standar Akuntansi Keuangan Indonesia Tentang Kombinasi Bisnis Pada Laporan Keuangan PT Telekomunikasi Inonesia (Persero) Tbk Periode 2012-2014. *Jurnal Ilmiah Akuntansi Fakultas Ekonomi Universitas Pakuan*, 2(1), 23–45.
- Rahayu, I., & dan Oksadilla, R. (2014). Persepsi Mahasiswa Terhadap Kualitas PSAK 22 (Revisi 2010) Adopsi IFRS. *Jurnal Aplikasi Bisnis*, 16, 2031–2048.
- Sari, D. N. (2014). Analisis Transaksi Kombinasi Bisnis Dengan Konvergensi IFRS Pada PT Indosat Tbk Periode 2011-2012. *Skripsi*. Surakarta: Universitas Muhammadiyah Surakarta (UMS).
- Utari, D, Purwanti, A, & Prawironegoro, D. (2014). *Manajemen Keuangan: Edisi Revisi*. Jakarta: Mitra Wacana Media.
- Walangitan, R. B. (2012). Accounting Choice Atas Penerapan PSAK 22 (Revisi 2010): Analisis Kualitas Pengungkapan dan Manajemen Laba Terkait dengan Penurunan Nilai Goodwill. *Disertasi*. Jakarta: Universitas Bina Nusantara (Binus).